

10 things to know about workplace fraud

The Rhode Island Joint Task Force on the Underground Economy and Employee Misclassification, established last legislative session, was created to combat fraudulent business practices in the state.

Examples of workplace fraud include those who avoid labor, licensing, and tax laws; employers who misclassify employees as independent contractors rather than employees to conceal their tax liabilities; and employers who pay their workers cash, under the table, and engage in other "off the books" activities.

This presentation provides the following 10 things you may not know about workplace fraud.



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1) The underground economy doesn't just affect undocumented workers

Workers affected include those who are intentionally misclassified as independent contractors by their employers, or employees who are paid under the table.



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2) Employers who abide by the law pay higher business costs because of fraud

Employers end up paying more for workers' compensation and unemployment insurance taxes when other businesses don't. These employers also often end up losing out on bids for jobs because they cannot compete with illegitimate businesses that submit lower cost bids.



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3) Consumers put themselves at risk if they hire unlicensed contractors

Those who need repair work done should seek recommendations and references and ask questions of prospective contractors before hiring them, as the consumer may be exposed to potentially unregulated and unsafe goods and services if the contractor is not licensed.



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4) Employees who are misclassified as independent contractors do not receive standard and important workplace benefits

Often, workers who are misclassified aren't aware of it until they are laid-off or injured on the job. They are denied workplace protections afforded to other workers, including workers' compensation and unemployment insurance benefits.



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5) Workplace fraud and employee misclassification happens in every industry, not just in construction

Fraud is particularly common in the construction sector, but can occur in every industry - in both white and blue collar jobs ranging from hospitality, to healthcare, to high technology.



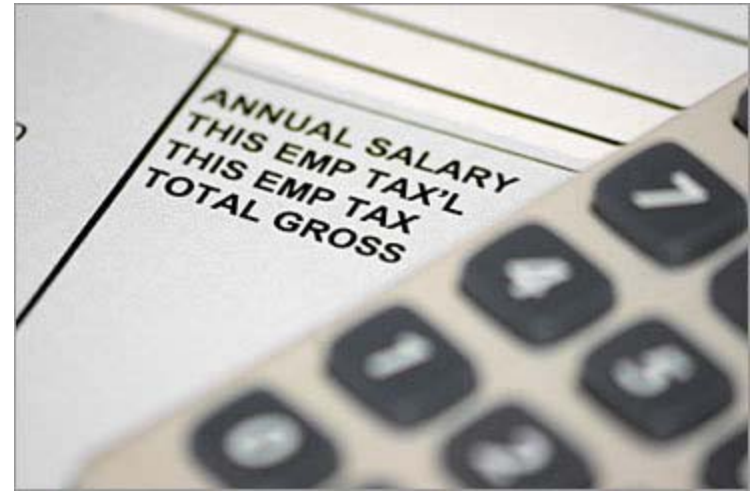
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6) Massachusetts loses hundreds of millions in revenue from the underground economy

The IRS estimates that 15% of employers misclassify employees resulting in tax losses totaling \$2.72 billion.

A 2004 Harvard University study of the underground economy in the Massachusetts construction industry estimated that the Commonwealth lost nearly \$100 million in unpaid income tax payments and another \$100 million in unpaid workers' compensation contributions from 2001-2003 alone.

The Rhode Island Joint Taskforce will undertake a similar study this upcoming year.



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7) Small businesses may think they are saving time and hassle by paying someone to work under the table, in cash

Businesses that do not have an in-house resource department may be prone to pay workers off the books. However, employers of any size that pay workers strictly under the table in cash are breaking the law and are subject to criminal penalties.



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8) Teens who work are also subject to workplace fraud

Misclassified young workers in food service, construction and other industries do not receive the necessary work permits, supervision, and the workplace protections of workers' compensation and unemployment insurance.



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9) The underground economy is taking place near you

Fraud takes different forms and people often believe that this activity happens only in overseas factories. While there are many employers that comply with the law, there are many others that, in looking to cut their expenses, may inadvertently engage in fraudulent activities, and not even realize it.



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10) You can get help on suspected workplace fraud issues.

Workers and employers can get information about workplace fraud, or report a suspected case of fraud anonymously, by calling the Department of Labor and Training Workers' Compensation Fraud Unit at (401)462-8100 option 7 or email WCFraud@dlt.ri.gov

